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SIPDIS

SENSITIVE

USDOC FOR 4520/ITA/MAC/ONE/COBERG
TREASURY FOR MILLS, PIPATANAGUL
PASS OPIC FOR STEVE COWAN, ABED TARBUSH
EXIM BANK FOR BOSCO

E.O. 12958: N/A

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SUBJECT: THE ARAB BANK'S PLACE IN JORDAN AND THE REGION

REF: AMMAN 0794

SENSITIVE BUT UNCLASSIFIED; PLEASE HANDLE ACCORDINGLY

¶11. (SBU) SUMMARY: For more than seventy years, the Arab Bank has been among the most respected, and even beloved, financial institutions in the region. Having weathered wars, political and economic unrest, closures, and nationalizations, the Bank has grown into a regional and global player in the banking sector, with a reputation as a transparent, competent, and trustworthy banker and lender. The Bank's Palestinian roots, connections, and reputation of dependability have made it the preferred bank for Palestinians worldwide. Due to its stature, as well as to the historical relationship between the founding Shoman family and the monarchy, the Arab Bank enjoys an esteemed place in Jordanian society, economically, politically, and socially, and has become the "rock" of financial institutions in Jordan--a "go to" place when times are tough, and a symbol, to Palestinians and Jordanians alike, of the "indomitable" Arab spirit. End summary.

BACKGROUND

¶12. (SBU) The Arab Bank Group (ARBK) is one of the largest financial institutions in the Arab world, with over 400 branches and offices in 30 countries in Asia, Europe, and the Americas. It comprises Arab Bank plc, Arab Bank Switzerland, and a number of other subsidiaries and affiliates worldwide, including branches in New York, London, Paris, Australia, and the Gulf countries. According to its 2001 annual report, the Bank had assets of \$22.2 billion at the end of 2001. The company's net income for 2001 was \$195 million, up 6.9% over **¶2000.**

THE BANK AND THE JORDANIAN ECONOMY

¶13. (SBU) Arab Bank branches in Jordan and the Occupied Territories accounts for 22% of the Bank's assets and 21% of its worldwide revenues. According to Central Bank of Jordan (CBJ) figures, the Bank holds 31% of assets, 37% of bank deposits, and 17% of loans in the Jordanian banking system. The company also accounts for 39% of the Amman Stock Exchange's (ASE) market capitalization. With its reputation for probity, transparency, and sound management, the Bank has been a cornerstone of the local economy, and, having survived many political and economic crises in the region, is the institution the Jordanian government and Arab clients look to for reassurance when times get tough. Following the devaluation of the Jordanian dinar in the late 80s, the Bank was one of the few legitimate sources of foreign currency in Jordan. In the wake of the al-Shemailah loan scandal (REFTEL) earlier this year, it was rumored that the Bank deposited sufficient funds at the CBJ in the event they were needed to bail out troubled local banks directly affected by the scandal. Depositors withdrew funds from banks affected by the scandal and deposited them in the Arab Bank.

¶14. (SBU) Also noteworthy is the esteem in which the Bank and its founding family, the Shomans, are held. It is said that, upon hearing of a threat on a leading Shoman's life by a prominent southern tribe, the late King Hussein intervened personally and told tribal elders directly that dire consequences to the tribe would result should the threat be carried out. Another source told us that, when Lebanese PM Rafiq Hariri attempted to purchase an additional 5% stake in the Bank put up for sale by Kuwaiti interests, and the resulting increased Hariri share posed a threat to Shoman family control, King Abdullah personally weighed in with the Kuwaitis on behalf of the Shomans to support a bid by the Jordanian Social Security Corporation, which went on to purchase the shares, and left the Bank in Jordanian hands.

Current Ownership and Control

15. (SBU) The Shoman family continues to have putative control over the Company through its reputation, the respect and support of the majority of shareholders, and day-to-day management of the Bank. Currently, the family's stake is down to 35%, according to market estimates. Other major holders are the Jordanian Social Security Corporation (SSC), the Palestinian/Jordanian al-Masri, al-Sabbagh, and al-Saifi families, Lebanese Prime Minister Rafiq al-Hariri (8%), and the Saudi Government (17%) via various investment vehicles. "Non-Arab" ownership of Arab Bank shares is limited, banned as it was until the mid 90s by the Bank's internal bylaws due to fears of Israeli influence.

16. (SBU) The Shoman family also exerts a controlling influence via the Board of Directors. Out of the eleven seats on the board, three are occupied by Shomans, two by the al-Masri family, and one each by the Sabbagh family, the SSC, a representative of the Saudi Ministry of Finance, the Jordan Insurance Company, the Beirut-based Arabia Insurance Company, and the al-Hariri family, all save the latter loyal to the Shomans.

PRESENCE IN THE WEST BANK/GAZA

17. (SBU) In the mid-nineties, the Bank received permission by the Central Bank of Jordan (CBJ) and the Israeli Central Bank to reopen in the West Bank/Gaza, under the supervision of both the CBJ and the Palestinian Monetary Authority (PMA). The Bank, which controls about 55% of total deposits in the Occupied Territories, is said to be the main international bank used by the Palestinian Authority (PA), although the PA apparently prefers to use local, less transparent banks for much of its domestic business. The Arab Bank also owns 55% of the Arab Palestine Investment Bank, and was the founding shareholder in the Palestine Development and Investment Company (PADICO), established in 1993 to help revitalize the Palestinian economy. However, the Bank has come under increasing criticism locally as of late due to its extremely conservative lending policy; it has virtually ceased lending as a result of the Intifada and at a time when Palestinian small and medium enterprises need assistance in rebuilding and supporting their businesses.

18. (SBU) Long identified with the Palestinian cause (Note: a short biography of the founder of the Bank, Abdul-Hamid Shoman, can be found on the intifada.com website under Palestinian personalities), the Bank's employees, along with then-CEO Abdul-Majid Shoman and the Bank's senior management, donated 5% of one month's salary to the Palestinian people at the outbreak of the al-Aqsa Intifada in October, 2000. Abdul-Majid also established the Welfare Association, which is, according to its website, is "the largest Palestinian source of private funds directed toward humanitarian and development efforts for Palestine". The Bank's charitable arm, the Amman-based Abdul-Hamid Shoman Foundation, sponsors a number of Palestinian cultural, scientific, and literary funds and fora.

19. (SBU) As one of the few financial outlets available to Palestinians in the West Bank/Gaza, the Bank continues to be a conduit for remittances from the United States and elsewhere to the Occupied Territories. The sums involved are considerable in sum, but individual transactions are likely small. The PMA requires that transactions of more than \$10,000 be reported to the PMA, with a 24-hour hold on the transaction while it is scrutinized. According to a recent U.S. news report, the FBI's Joint Terrorism Task Force is investigating an Iraqi native indicted under Federal charges of running an unlicensed business that illegally transferred money to the Middle East. The indictment alleges that Kareem Abdalhassin Albasam used 11 accounts at four Utah banks to transfer approximately \$2 million to the Amman branch of the Arab Bank, where an associate disbursed the money to others. In addition, the IDF website (www.idf.il) contains a report based on documents purportedly captured during the April siege of the Muqatta that show that money from Saudi charities was funneled to "families of notorious terrorists" in the West Bank via Arab Bank branches. None of these reports suggests that Arab Bank management was aware of such transactions.

AN ARAB BANK FOR ARABS

10. (SBU) Founded by Abdul-Hamid Shoman as an "Arab bank for Arabs", the Arab Bank opened its first branch in Jerusalem in May 1930. Its expansion began in 1934 with the opening of a branch in Amman, and throughout the region in the years following. However, with the establishment of the State of Israel in 1948, the Bank lost its branches in Haifa and Jaffa, as well as most of the branches' deposits. Following the Six Day War in 1967, the Bank lost its West

Bank and Gaza branches.

¶11. (SBU) In the wake of these closures, the Bank nonetheless honored its clients' deposits both post-1948 as well as after the Six Day War, despite not being indemnified by the Israelis. This commitment by the Bank to its depositors has made it the bank most favored by Palestinians worldwide. Moreover, the closures caused resentment that simmers to this day, and the Bank refuses to deal with Israel or the Israeli government. (Note: A wave of nationalizations also took place in Libya, Syria, Iraq, Aden, and Sudan in the Sixties and Seventies. Syria and Iraq have yet to reimburse the Bank for these takeovers. In Saudi Arabia, the Saudization of the Bank resulted in the establishment of the Arab National Bank, in which the Arab Bank retains a 40% share. The Bank has never had branches in Iran. End note.)

THE INDOMITABLE ARAB

¶12. (SBU) Shoman founded the Bank after spending 18 years in the United States forging links with Arab communities there and learning the retail and banking businesses. He returned to Palestine in 1929 to establish a bank that would "unite Arab economies" and combat what he called "Zionist plans" to take over the region. Active in the Palestinian demonstrations in 1936, he imported 20,000 pounds of rice and sugar from Egypt to sell to Palestinians at token prices. Charged with a number of offenses by British mandate authorities, he served 18 months in a prison near Haifa. Upon his release, Shoman returned to banking. At the outbreak of World War II, when a crowd of deposit holders rushed the Jerusalem branch to withdraw their funds, Shoman instructed all branches to honor such requests. This action restored confidence in the Bank. Most funds were redeposited, and the Bank acquired its reputation as a safe haven, a reputation that still holds today. In 1948, Shoman moved to Amman along with the Bank's headquarters.

¶13. (SBU) Shoman pushed the Bank's expansion as a way of linking Arabs and Arab communities throughout the world. Upon opening a branch in Zurich in 1962, the Bank became the first Arab financial institution to establish a presence in Switzerland. With branches also in France, Germany, Italy, Spain and the U.K., the Bank's European entities now comprise the majority share of total assets, loans, deposits and revenue. The Bank also has branches in South America, China, Korea, and the United States. Supervised by a host of major international regulators, the Bank, and the Shoman family, have maintained an unsullied reputation within the international banking community for transparency, regulatory compliance, and faithful adherence to international banking norms and standards.

MANAGEMENT IN TRANSITION

¶14. (SBU) ARBK Chairman and son of founder Abdul-Hamid Shoman, Abdul-Majid Shoman, transferred most of his formal powers to his eldest son, Abdul-Hamid Shoman, now CEO, in 2001. The younger Shoman is restructuring the Bank's management team, much to the chagrin of the old guard, and it has been said that he does not command respect in the way his father and grandfather had. The Bank is targeting its recruiting efforts on graduates from Western universities, and, as part of a new, accelerated management training program, these new recruits will move into middle management positions within four years, as opposed to ten years previously, and this, too, may cause some morale problems. In addition, in the recognition it must keep up with modern banking, management, and technical advances, the Bank's strategic plan includes the establishment of strategic business units, human resource management, and IT development. The Bank's overall management has been progressively decentralized, with the establishment of regional management centers and branch managers gaining more leeway on decision-making.

COMMENT

¶15. (SBU) As much a part of Jordanian history as any other institution, civil or otherwise, the Arab Bank occupies an important role in Jordan, commercially, financially, and culturally, so much so that the Bank's stability plays a role in the stability of the country and the region as a whole, as recently expressed to us privately by the Governor of the Central Bank. Given the Arab Bank's reputation for transparency and probity, and its financial bulk in the area, allegations to the contrary would be most surprising, with potentially far-reaching consequences for the Jordanian and Palestinian banking systems, and ultimately, economies.

16. (SBU) THIS MESSAGE HAS BEEN CLEARED BY CONGEN JERUSALEM.

GNEHM